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THE ECONOMICS OF UNIONISM

Economists have usually discussed the possible effect of trade unions on wages in terms of static conditions. Given certain natural resources, a certain development of the arts, a certain supply of capital, and a certain population, what effect can trade unions have upon general wages? If competition works perfectly, the answer is that trade unions can have no effect on general wages. If competition does not work perfectly, they may help to secure the wages that would have obtained under ideally competitive conditions. "Labor organizations are thus effective toward securing 'fair wages'; that is, the current or market rates determined under the conditions of competition. . . . Under the régime of private property and competitive industry, this is doubtless all that unionism can achieve in raising wages."¹ "Generally speaking, then, bargaining does not seem to act upon wages with the force recently attributed to it, and does not seem to limit in any marked degree the dominance of the principle of marginal significance."² "No one denies the importance of organized bargaining power on the part of labor. Its importance is that the unscrupulous employer cannot take undue advantage of labor in scaling wages below their normal competitive rate."³ "The wages contract is a bargain, and when it fails to secure for labor its full competitive share of the product the cause must be sought in the unequal bargaining ability of workmen and their employers. . . . In the usual situation the inequality in bargaining power between employer and employee is at least partly offset . . . by organization among the workers themselves."⁴ Other quotations might be added, but those given are sufficient to illustrate the point.

¹ Taussig, *Principles of Economics* (3d ed.), II, 301.

² F. M. Taylor, *Principles of Economics*, p. 484.

³ Turner, *Introduction to Economics*, p. 462.

⁴ Seager, *Principles of Economics*, pp. 548, 550.

In his suggestive articles on "A Balanced Industrial System"¹ and "Four Labor Programs"² Professor Carver rightly insists that to attempt to raise wages without modifying the conditions that cause low wages is to apply the remedy to the symptom of the disease rather than to the cause. In his view, that is what trade unions attempt to do. He has stated very clearly the conditions under which wages are low. These conditions are a relative abundance of labor, which implies on the other hand a relative scarcity of natural resources, capital, and entrepreneurs. The means by which Professor Carver wishes to reach the "balanced system" sought for are: (1) an increase of technical, professional, and managerial labor through an improved system of popular education, (2) an increase of capital through inculcating universal thrift, (3) a limitation of the supply of unskilled labor through restriction of immigration. Such a program would be desirable from "every point of view," including presumably the point of view of entrepreneurs, and therefore would not precipitate a struggle.

It is the thesis of the present article that the struggle between labor and capital in so far as it is a trade-union struggle for an improved status in the existing economic order—we are not here considering the revolutionary phase of the labor struggle—is essentially a struggle over the supply of labor, a struggle on the part of the laborers to make labor scarce and therefore dear, and a struggle on the part of employers to make labor plentiful and therefore cheap. Each side is striving to bring about those "social arrangements" which make labor scarce on the one hand or plentiful on the other. An attempt will be made to show that in so doing each is following its own self-interest, that there results therefore an unavoidable conflict of interest and an inevitable struggle.

The labor movement began and the struggle arose as soon as the labor of formerly independent and proprietary handicraftsmen and yeomen became a commodity. It would not be correct to say that the labor struggle appeared as soon as a laboring

¹ T. N. Carver, Supplement, *Amer. Econ. Rev.*, March, 1920, pp. 69-77.

² T. N. Carver, *Quar. Jour. of Econ.*, February, 1919, pp. 344-67.

population arose with no future prospects except that of remaining permanently wage-earners. According to Gregory King there were in 1688 in England 764,000 families of "labouring people and outservants, cottagers and paupers."¹ They constituted over 60 per cent of the population. Yet there was no appreciable labor movement. These people had been lifted from the status of serfs and slaves to the position of free laborers. Not until the 390,000 families of "yeomen, tenant farmers, shopkeepers, tradesmen and artisans"² were threatened with the loss of their independent and proprietary status, as a result of inclosures on the one hand, and the widening of the market and the consequent introduction of merchant capitalism on the other, did a real labor struggle begin. Under the pressure of industrial evolution, of widening markets and a new industrial technique, these independent proprietors owning their own simple tools and selling their self-made products were being transformed into persons with nothing to sell but their labor. When the labor of these former yeomen and independent craftsmen became a mere commodity to be bartered away on the market, then the struggle began on the part of the laborers to bring about such social arrangements as would make this commodity scarce and therefore dear; on the part of employers to make it plentiful and therefore cheap.

At the same time another revolution was going on. Instead of products to be sold in a local market controlled by custom and guild or governmental regulations, the commodity labor was increasingly sold in an open, competitive market, a market without "dykes or bulwarks," subject to the inundation of woman labor, child labor, prison labor, immigrant labor, and increasing population. The laborer's problem was to protect himself against this inundation, to protect his labor market, to make his labor scarce and therefore dear. It was a problem not of static conditions, but of social dynamics.

On the other hand it was to the interest of the employer to keep the market open, to make the commodity labor as

¹ Curtler, *A Short History of English Agriculture*, p. 156.

² *Ibid.*

plentiful and cheap as possible. The marginal significance of entrepreneurs, as well as the marginal significance of their capital and land, is enhanced with every increase in the supply of labor. When laborers are plentiful and entrepreneurs relatively scarce, entrepreneurs can command high wages of management.¹ In a country where the labor supply is abundant, labor is benefited by an increase in the number of entrepreneurs. The immigration of American business men into the Philippine Islands serves to raise the general level of wages in those islands. In like manner, in a country with an abundant supply of able entrepreneurs an increase in the number of laborers will tend to make entrepreneurs relatively more scarce, will increase the marginal significance of entrepreneurs, and raise wages of management. Every factor benefits from an increase in the auxiliary factors. The argument holds for capital and land as well as for entrepreneurs. Every increase in the supply of labor serves to increase the return to the other factors of production.

It cannot be doubted, then, that employers, interested as they necessarily must be in high wages of management and high returns on capital and land owned by them, will be concerned over the supply of labor. Indeed economic history shows that one of the chief concerns that employers have always had is an abundant and plentiful supply of labor.

Various measures have been adopted to secure this end. With the coming of the Industrial Revolution in England the supply of labor was increased by getting children from the workhouses and immigrants from Ireland, Wales, and Scotland. The birth-rate was stimulated in some parts by giving allowances according to the number of children in the family. In certain weaving districts it was the "practice to make allowances in aid of wages to able bodied weavers who had more than two children under ten years of age."² The wages that children could earn at a very tender age made children an early asset. Even today European employers are seeking to make large

¹ Taussig, *op. cit.*, II, 177-79.

² Hammond, *The Town Labourer*, p. 14.

families profitable by paying an allowance in addition to wages based on the size of the family. In France there have been established over seventy-two funds by as many employers' associations which have this object in view. Every workman is paid first a wage based on the value of the work done and in addition an allowance for his children. The allowance is paid out of a central fund to which each employer contributes in proportion to the workmen employed. Thus it is immaterial to the individual employer whether he employs single or family men. In this manner the "employers hope to provide themselves a future superior labor reserve which will do away with the supplementary foreign and colonial labor to which they have had recourse these later years."¹ Large family leagues have been organized in France. Similarly in Germany allowances in proportion to the size of the family are generally paid in the mining industry, and to a considerable extent in the metal-trades industry.

In America employers have from our earliest history sought to increase the supply of labor. In colonial times the two chief methods were the securing of indentured servants and slaves. With the merchant capitalist system came sweatshop labor, child labor, woman labor, convict labor.² With the factory system came immigrant labor. A company was organized, the American Immigrant Company, "'to import laborers, especially skilled laborers from Great Britain, Germany, Belgium, France, Switzerland, Norway and Sweden for the manufacturers, railroad companies and other employers of labor in America.'"³ The recent encouragement of the movement of negroes into the northern states and of Mexican labor into the United States illustrates the same tendency. Employers have consistently fought restriction of immigration.

On the other hand the history of the labor movement in all countries reveals a constant struggle to prevent this inundation of the labor market. From the earliest period trade unions

¹ Mary T. Waggaman, "Some Developments in the Movement for Family Wages," *Monthly Labor Review*, October, 1921, pp. 9-19.

² Commons, *History of Labour*, I, 102-3.

³ *Ibid.*, II, 117.

opposed child labor, woman labor, prison labor, sweatshop labor, immigrant labor. In Europe, today, they are opposing the effort to encourage an increase in population through the introduction of the family wage. Both in France and in Germany the trade unions are opposed to the system. In the Netherlands one federation has proposed to "forbid affiliated trade unions from signing agreements providing for family allowances."¹ In the United States it was the Knights of Labor that was chiefly responsible for the passage of the anti-contract labor law.² Labor organizations throughout the country agitated long and earnestly for the exclusion of coolie labor. For over thirty years the American Federation of Labor has been agitating for restriction of immigration.³ Likewise labor organizations have opposed the flooding of the labor market with negro and Mexican labor.

So far we have been referring only to the struggle of capital and labor over the total supply of labor. But labor is concerned with more than the general labor market. Its interests are quite as much affected by the separate and distinct markets obtaining for every one of the dozens and scores of different kinds of labor. Each of these labor markets is no doubt affected by the situation in other labor markets, just as the market for oats is affected by the situation in the market for corn. There is always a tendency to "spill over" from the flooded market to the more favorably situated market. But while every labor group is interested to some extent in the supply of labor generally, it is primarily interested in the supply of labor in its own specialized labor market. It is in fact this point that distinguishes in the main the trade union from the general labor union.

No one is more firmly convinced that a commodity must be scarce in order to be dear than are trade unionists. For this and other reasons they seek to control the supply of labor in their own specialized labor markets by such devices as the closed

¹ Mary T. Waggaman, *op. cit.*, p. 17.

² Commons, *op. cit.*, II, 373.

³ "American Federation of Labor History," *Encyclopedia, Reference Book*, pp. 241-43.

shop, high initiation fees, limitation of apprentices, and a minimum wage. Whether or not these devices are socially desirable is another question, but at any rate so far as the trade unions are concerned they are not applying the remedy to the symptom of the disease; they are applying it to the cause; they are seeking to bring about that condition of relative scarcity without which high wages cannot obtain.

The closed shop with the rigidly closed union constitutes a perfect monopoly control over the supply of labor. The closed shop with the doors of the union open but through which entrance can be gained only over a "tariff wall" of high initiation fees or an unnecessarily long term of apprenticeship restricts very decidedly the supply of labor but does not completely limit it. The closed shop with the perfectly open union or the open shop with a union agreement as to minimum wages also restricts the supply of labor that can work in that trade. If the independent steel companies follow the prices established by the United States Steel Corporation there is no need for an agreement restricting output. The very maintenance of a price itself serves to limit output, for at a certain price only a certain amount of the product can be sold. If a trade union is able to maintain a certain minimum wage it by that very fact fixes the number of people who can engage in that trade because only a limited number will be employed at the established wage. If wages are raised fewer laborers will be employed and the rest will have to go elsewhere for employment. Thus the establishment of a minimum wage serves to limit the number of laborers in the trade.

We have, however, not exhausted the methods whereby trade unions seek to limit the supply of labor. The supply of labor may in fact be thought of in either of two ways: We may measure the supply of labor by counting noses, or we may measure it in terms of productive energy. The labor supply furnished by one man who makes 10 pieces a day is equivalent to the labor supply furnished by two men each of whom produces but 5 units a day. From the standpoint of productive energy the supply of labor

would be decreased by a reduction in the hours of labor (provided such reduction did not result in speeding up) or by decreased efficiency on the part of labor. Restriction of output therefore means a decrease in the supply of labor and consequently an increase in the marginal significance of a unit of labor measured in terms of effort. The reduction in the supply of labor, consequent upon restricting output considerably, would make labor scarce relative to land and capital with the result that the marginal significance of labor would be increased while the marginal significance of land and capital would be decreased. The result would be a rise in piece rates. Thus restriction of output would result in increased pay per unit of work done, though it very likely would result in lower total earnings for the laborer. If workmen restricted output materially, the total income of society would be reduced, the pie to be divided among the various factors would be much smaller than before, and therefore all classes would lose absolutely. The proportion of the pie going to labor would increase, but since the pie itself would be smaller, labor would doubtless suffer absolutely. Yet it would have made a gain as compared to the other factors. If the supply of labor were reduced through shortening the hours of labor a further gain would be registered in the acquisition of increased leisure. It thus appears that restriction of output, foolish though it may be, is not quite so foolish from the standpoint of the laborer as it might at first appear. If he loses absolutely he at least gains relatively to the other factors. He gets more for the work actually done, though his total earnings may be greatly reduced. And if the reduction in output is due to a shortening of the working day he not only gets more for the work actually done but he gains in leisure. These gains offset in part, at any rate, the loss in total earnings.

Increased productivity of labor therefore results in larger total earnings but in lower piece rates. Wages in the sense of earnings per head are increased by (1) *increasing* the productivity of labor, (2) decreasing the supply of laborers as compared with the other factors of production. Wages in the sense of piece

rates are increased by (1) *decreasing* the productivity of labor, (2) decreasing the number of laborers as compared to the other factors.¹

The question may now be raised whether it is a justifiable practice from a social point of view to limit the supply of labor (1) in general, (2) in particular labor markets. We shall consider each of these questions separately.

First as to the supply of labor generally. The argument is frequently put forth that we need an abundant labor supply to "develop our natural resources." But the development of our natural resources may be accomplished wisely or unwisely. The question is rather this: Will our natural resources contribute the greatest good if we have a huge laboring population or a reasonably restricted population? To this question we shall return presently.

Again it is sometimes said that we must have an abundant supply of labor or we cannot compete in the markets of the world. But this argument is illusory. The prices of commodities entering into foreign commerce are normally the same in all countries except for transportation costs. These prices establish the marginal costs in all countries. The marginal cost of production must therefore be the same in all countries that produce the commodity at all, since the marginal cost in each country will correspond to the price. If the marginal producer in one country pays a higher wage than is paid in other countries it follows that the laborer also yields a larger product. The division of the total product among the various contributing factors may differ in the different countries depending on the relative scarcities of the factors. The total product to be divided may also differ in different countries. But whatever the total product and however it is divided, the value of a unit of product is all "cost" to the marginal entrepreneur, or he would not be a marginal entrepreneur. Therefore, since the price per unit is the same in all countries, the cost per unit must also be the same. Increasing the supply of labor merely serves to lower the margin of production until the marginal cost is as high as in other

¹ Hoxie, *Trade Unionism in the United States*, pp. 261-63.

countries. The naïve argument of employers that cheaper labor means lower cost will not stand the test of economic analysis.

As pointed out above, however, it is certainly true that employers as a class will benefit from an abundant supply of labor because of the resulting higher marginal significance of entrepreneurs, capital, and land. But since entrepreneurs constitute only one class in society, it does not necessarily follow that a plentiful supply of labor is desirable from a social standpoint. At any rate it is clearly not desirable from the point of view of a very numerous class in society, viz., the laborers themselves. From the point of view of the laborers it is desirable that every commodity should become as plentiful and therefore as cheap as possible with the exception of one commodity alone, viz., labor. That commodity, from their point of view, should be made as scarce and therefore as dear as possible.

We are trying to answer the question, What supply of labor is socially most desirable? Consider first the question, What population is most desirable? We have in the United States a given supply of natural resources; we have reached a certain stage in technical evolution, limited on the one hand by the state of the industrial arts, on the other by our accumulation of capital. Given certain natural resources and a certain stage in industrial evolution, there must be a certain population which would give us the largest possible per capita product. If the population were smaller than the point designated our efforts would be spread out too thinly over the natural resources and equipment available. Too small a population would limit the market, would hinder specialization, division of labor, and large-scale production. If the population were larger than the point designated we would have a lower per capita product due to diminishing returns from natural resources and the fact that no further counterbalancing gains could be secured through division of labor and large-scale production such as might otherwise offset the loss due to the limitation of natural resources. It should be noted that the point here referred to as the point of

highest per capita returns is not identical with what is generally spoken of as the point of diminishing returns from natural resources. The point of highest per capita product would no doubt be considerably beyond that, due to the fact that up to a certain point every increase in population, while suffering in productivity because of the limitation of natural resources, gains more than enough to offset that loss because of the benefits accruing from larger markets and increased specialization. But in time the point is reached where further advantages in that direction are not sufficient to offset the increasing disadvantages growing out of the limitation of natural resources. If the population of the United States has already exceeded that point, as it doubtless has, a restriction of immigration and population sufficient to bring us back to the point of highest per capita product would appear to be desirable.

We must, however, consider the supply of the various groups within the population. To what extent is a limitation of the supply of unskilled labor, skilled labor, technical experts, or entrepreneurs desirable? In short, what is the most desirable combination of all these contributing groups from a social point of view?

It is probably impossible to lay down satisfactory criteria as to what is socially desirable. Professor Carver appears to believe that the ideally balanced industrial system would call for equal rewards.¹ But it is not at all clear that equal rewards for persons with unequal mental capacities and abilities, and therefore with unequal standards of wants, is really desirable. Indeed it is quite conceivable that such a situation would give rise to greater dissatisfaction and unrest than do the existing inequalities in income. At all events only under thoroughgoing communism could there be complete equality. Under a system of exchange and free bargaining the rewards would always be unequal, due to the enormous differences in native or inherited capacities. Because of these biological inequalities superior talent and ability will always be scarce, and will therefore in a free market be able to command superior rewards.

¹ Carver, Supplement, *Amer. Econ. Rev.*, March, 1920, pp. 72-76.

The answer, then, to the question of the relative scarcity of different groups runs in terms of biological and psychological heredity. It cannot run in terms of absolute economic equality, for that presupposes biological and psychological equality. The most desirable degree of scarcity of each contributing group is that degree of scarcity established by virtue of the innate differences between individuals. But if scarcity is to correspond to innate differences, every individual must have an equal opportunity with every other individual to develop and take advantage of such powers of body and mind as he has inherited. Innate differences would then determine relative scarcities, and these relative scarcities would determine the marginal significance of each group. The rewards of each group would be determined not by any humanitarian, idealistic, or philosophical notions; they would be established by the physical fact of biological heredity.

Absolute equality of opportunity is, however, quite as utopian an ideal as is absolute equality of income. Indeed absolute equality of opportunity would be impossible without absolute equality of income. For it is inconceivable that the father with a larger income than his fellows will not seek to give his child as great assistance in the start in life as his income will permit. Unequal incomes therefore of necessity imply unequal opportunities, unless we assume that human beings will some day be as much interested in the success and well-being of other people's children as their own. We have then this curious dilemma: Absolute equality of opportunity for the coming generation, which would enable everyone to attain rewards commensurate with his native intelligence and capabilities, could not be attained without absolute equality of income in the present generation. But absolute equality of income in the present generation would mean that persons with unequal intelligences and capacities would be unable to attain rewards commensurate with their capacities. Equality of opportunity for the next generation is impossible without equality of income in the present generation, but equality of income in the present generation makes equality of opportunity for the present

generation impossible. If you give two boys an equal start in a race, but the rules of the game forbid each from outrunning the other, then there is no open opportunity to win the race on the basis of merit at all. There appears to be no escape from this dilemma.

It is thus evident that absolute equality of opportunity would not only be impossible without the destruction of all vested rights, such as the inheritance of private property for example, but, more than that, it would be impossible without complete equality of income. Arguments against the restrictive policies of trade unions generally rest on the ground that these policies obstruct to some extent equality of opportunity. But, except for thoroughgoing equalitarians, that argument taken by itself alone will have little validity. Most economists are agreed that while the institutions of private property and the inheritance of private property prevent absolute equality of opportunity, they can still be justified on the ground of social utility.¹ Likewise it may be socially desirable to maintain a considerable middle class even though it be maintained in part at the cost of a partial infringement of equality of opportunity. In that case it would scarcely be wise to tear down the dykes which protect certain labor markets from inundation.

Absolute equality of income then is undesirable as well as utopian, and absolute equality of opportunity impossible. What we actually have now and are likely to continue to have in the future is such a balance of power between various contending groups as gives a tolerable and reasonable approach to equality of opportunity. Each organized group seeks to establish special privileges for itself, but the opposition of other groups holds it in check and tends to break down such vested rights as it attempts to establish. It is this struggle of contending groups, controlled within certain limits by the natural biological supply of abilities of different grades, that determines the relative scarcities of the groups and therefore the marginal significance of each.

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¹ Taussig, *op. cit.*, II, 265-77.